State of Hawaii
Department of Accounting and General Services
State Parking Revolving Fund
Financial and Compliance Audit
June 30, 2013

Submitted By
Office of the Auditor
State of Hawaii

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PART I

TRANSMITTAL

EGAMI & ICHIKAWA
CERTIFIED PUBLIC ACCOUNTANTS, INC.

Office of the Auditor
State of Hawaii

We have completed our financial audit of State of Hawaii, Department of Accounting and General Services, State Parking Revolving Fund (the "Fund") as of and for the year ended June 30, 2013. The audit was performed in accordance with our agreement with the Office of the Auditor, State of Hawaii, dated July 19, 2013.

OBJECTIVES

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the Fund's financial statements as of and for the fiscal year ended June 30, 2013. More specifically, the objectives of our audit were as follows:

1. To provide a basis for an opinion as to whether the financial statements of the Fund are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

2. To report on the Fund's internal control over financial reporting and compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

3. To ascertain the adequacy of the financial and other management information reports in providing officials at the different levels of the Fund with the proper information to plan, evaluate, control and correct program activities.

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The scope of our audit included an examination of the transactions and accounting records of the Fund for the fiscal year ended June 30, 2013.

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ORGANIZATION OF THE REPORT

This report is organized into six parts:

PART I - presents the transmittal letter.

PART II - presents management's discussion and analysis.

PART III - presents the financial section which includes the Fund's financial statements and the auditors' report on such statements.

PART IV - contains the report on internal controls over financial reporting and compliance.

PART V - presents the schedule of audit findings and questioned costs.

PART VI - contains the corrective action plan.

At this time, we wish to thank the Fund's personnel for their cooperation and assistance extended to us. We will be happy to respond to any questions that you may have on this report.

COPY
Original document signed by
Egami & Ichikawa CPAs, Inc.

Honolulu, Hawaii
January 16, 2014

PART II

MANAGEMENT'S DISCUSSION AND ANALYSIS

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

This section of the annual financial report presents an analysis of the Fund's financial performance during the fiscal year ended June 30, 2013. Please read it in conjunction with the financial statements which follow this section.

2013 FINANCIAL HIGHLIGHTS

- The Fund's net position decreased by $821,000 or 3.96%, as compared to 2012. This decrease was primarily due to funds transferred out to the State's General Fund totaling $499,000.
- The Fund's investment in capital assets was $19,045,000, which decreased by $572,000 or 2.92%, as compared to 2012.
- The Fund's total liabilities were $1,336,000, which increased by $207,000 or 18.33%, as compared to 2012.
- The Fund's operating revenues increased by $75,000 or 2.05%, as compared to 2012. The increase was due to increased collections from parking assessments and parking meters.

OVERVIEW OF ANNUAL REPORT

This annual report consists of six parts: Transmittal letter; management's discussion and analysis; financial section; internal control and compliance; schedule of audit findings and questioned costs; and corrective action plan.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the Fund present information about the Fund as a whole and its activities and uses the accrual basis of accounting. The accrual basis which is similar to the accounting basis used by private sector companies recognizes revenues and expenses regardless of when cash is paid or received.

The Statement of Net Position provides both short-term and long-term information about the Fund's financial position, which reflects the Fund's economic condition at the end of the year.

The Statement of Net Position provides, over time, indicators of the Fund's financial position. The Statement of Net Position includes all the Fund's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and provides information about the nature and the amounts of investment in resources (assets) and obligations (liabilities) of the Fund.

REQUIRED FINANCIAL STATEMENTS (Continued)

The Statement of Revenues, Expenses and Changes in Net Position reflect the Fund's current year's revenues and expenses regardless of when cash is received or paid.

The Statement of Cash Flows reflects the flow of cash of the Fund in four categories or activities: operating, investing, capital, and noncapital.

Tables 1 and 2 present a comparative view of net position and revenues, expenses, and changes in net position as of June 30, 2013 and 2012.

TABLE 1
NET POSITION
(Rounded to nearest $1,000)

	2013	2012
ASSETS		
Current	$ 2,219,000	$ 2,261,000
Capital assets, net of depreciation	19,045,000	19,617,000
TOTAL ASSETS	$ 21,264,000	$ 21,878,000
LIABILITIES		
Current	$ 190,000	$ 153,000
Long-term	1,146,000	976,000
TOTAL LIABILITIES	1,336,000	1,129,000
NET POSITION		
Invested in capital assets, net of related debt	18,980,000	19,538,000
Unrestricted	948,000	1,211,000
TOTAL NET POSITION	19,928,000	20,749,000
TOTAL LIABILITIES AND NET POSITION	$ 21,264,000	$ 21,878,000

Net position of the Fund decreased by $821,000 or 3.96% in 2013. Investment in capital assets (i.e., land, construction in progress, structures and improvements, and equipment, furniture and fixtures), net of the related debt used to construct the assets represent a large portion of the Fund's assets; $18,980,000 or 95.24% in 2013 and $19,538,000 or 94.16% in 2012. Capital assets are used to provide parking for employees, contractors with state related business and the public. The Fund's investment in its capital assets is reported net of debt. The resources needed to repay this debt must be provided by other sources, since the capital assets, mainly the parking structures, cannot be used to liquidate these liabilities. The remaining unrestricted assets may be used to finance day to day operations without any constraints established by debt or other legal requirements.

TABLE 2
REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(Rounded to nearest $1,000)

	2013	2012
OPERATING REVENUES		
Parking assessments	$ 2,545,000	$ 2,480,000
Parking meter collections	1,016,000	958,000
Traffic fines	170,000	217,000
Other income	2,000	3,000
TOTAL OPERATING REVENUES	3,733,000	3,658,000
OPERATING EXPENSES		
General operating and administrative	2,628,000	3,267,000
Depreciation	1,430,000	1,560,000
TOTAL OPERATING EXPENSES	4,058,000	4,827,000
LOSS FROM OPERATIONS	(325,000)	(1,169,000)
NET NONOPERATING REVENUES (EXPENSES)	3,000	(4,000)
OPERATING TRANSFER	(499,000)	(414,000)
CHANGE IN NET POSITION	(821,000)	(1,587,000)
NET POSITION, BEGINNING OF YEAR	20,749,000	22,336,000
NET POSITION, END OF THE YEAR	$ 19,928,000	$ 20,749,000

The Fund's parking assessment fees and rates are established by the Comptroller, as Chief of the Department of Accounting and General Services or the Comptroller's designated representative, the division head of the Automotive Management Division. The increase in operating revenues of $75,000 or 2.05% in 2013 was due to increased collections from parking assessments and parking meter collections.

The decrease in general operating expenses of $639,000 or 19.56% in 2013 was primarily due to decreases in repair and maintenance expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Fund's investment in capital assets amounted to $19,045,000 and $19,617,000 at June 30, 2013 and 2012 (net of accumulated depreciation of $53,065,000 in 2013 and $51,657,000 in 2012). Capital assets include land, structures and improvements, and equipment, furniture and fixtures. Structures and improvements represent 83.55% in 2013 and 84.53% in 2012, of the total capital assets.

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Capital Assets (Continued)

Net capital assets (Rounded to the nearest $1,000) are accounted for as follows:

	2013	2012
ASSETS		
Capital assets not being depreciated:		
Land	$ 10,271,000	$ 10,271,000
Construction in progress	1,409,000	615,000
Total capital assets, not being depreciated	11,680,000	10,886,000
Capital assets being depreciated, net of accumulated depreciation:		
Structures and improvements	7,365,000	8,731,000
CAPITAL ASSETS, AT COST, LESS ACCUMULATED DEPRECIATION	$ 19,045,000	$ 19,617,000

Debt Administration

The Fund had long-term debt of $65,000 and $79,000, at June 30, 2013 and 2012, respectively, which is comprised of General obligation refunding bonds. See Note 7 of the Fund's financial statements for additional information on the General obligation refunding bonds:

Bonds payable (Rounded to the nearest $1,000) are accounted for as follows:

	2013	2012
Current	$ 15,000	$ 14,000
Noncurrent	50,000	65,000
Total bonds payable	$ 65,000	$ 79,000

The Fund's total debt decreased by $14,000 in 2013.

CURRENTLY KNOWN DECISIONS AND FACTS

None

PART III

FINANCIAL SECTION

EGAMI & ICHIKAWA
CERTIFIED PUBLIC ACCOUNTANTS, INC.

INDEPENDENT AUDITORS' REPORT

Office of the Auditor
State of Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Hawaii, Department of Accounting and General Services, State Parking Revolving Fund (the "Fund") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our audit opinion.

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the State of Hawaii, or any other segment thereof, as of June 30, 2013, and the changes in its financial position, or, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund, as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2014, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

This report is intended solely for the information and use of the Office of the Auditor, management of the Fund, the Department of Accounting and General Services and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

COPY
Original document signed by
Egami & Ichikawa CPAs, Inc.

Honolulu, Hawaii
January 16, 2014

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND
STATEMENT OF NET POSITION
JUNE 30, 2013

CURRENT ASSETS		
Cash and cash equivalents	$	2,109,144
Accounts receivable, net		98,026
Inventories		11,939
TOTAL CURRENT ASSETS		2,219,109
NONCURRENT ASSETS		
Capital assets, at cost, less accumulated depreciation		19,045,104
TOTAL ASSETS	$	21,264,213
CURRENT LIABILITIES		
Accounts payable	$	101,517
Accrued liabilities		73,267
General obligation bonds payable-current		15,061
TOTAL CURRENT LIABILITIES		189,845
NONCURRENT LIABILITIES		
Security card deposits		27,590
Accrued liabilities		140,804
General obligation bonds payable, less current portion		49,499
Net OPEB obligation		928,090
TOTAL NONCURRENT LIABILITIES		1,145,983
TOTAL LIABILITIES		1,335,828
NET POSITION		
Invested in capital assets, net of related debt		18,980,544
Unrestricted		947,841
TOTAL NET POSITION		19,928,385
TOTAL LIABILITIES AND NET POSITION	$	21,264,213

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2013

OPERATING REVENUES	
Parking assessments	$ 2,544,920
Parking meter collections	1,015,792
Traffic fines	169,905
Other income	2,579
TOTAL OPERATING REVENUES	3,733,196
OPERATING EXPENSES	
Depreciation	1,430,251
Personnel services	1,397,707
Repairs and maintenance	445,609
Others	784,172
TOTAL OPERATING EXPENSES	4,057,739
LOSS FROM OPERATIONS	(324,543)
NONOPERATING REVENUES (EXPENSES)	
Gain on investments in State Treasury	14,734
Interest income	5,111
Other income	17,456
Assessment on ceded land revenues	(33,331)
Interest expense	(312)
TOTAL NONOPERATING REVENUES (EXPENSES)	3,658
LOSS BEFORE TRANSFERS	(320,885)
TRANSFER OUT TO GENERAL FUND	(499,258)
CHANGE IN NET POSITION	(820,143)
NET POSITION, BEGINNING OF THE YEAR	20,748,528
NET POSITION, END OF THE YEAR	$ 19,928,385

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from parking assessments	$	2,550,311
Receipts from parking meter collections		986,980
Receipts from traffic fines		169,905
Other receipts		2,579
Payments for personnel services		(1,223,998)
Payments for repairs and maintenance		(466,104)
Other administrative payments		(782,609)
NET CASH PROVIDED BY OPERATING ACTIVITIES		1,237,064
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest from pooled funds		5,728
Other receipts		17,456
Gain on investments in State Treasury		14,734
NET CASH PROVIDED BY INVESTING ACTIVITIES		37,918
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets		(64,718)
Construction in progress additions, net of completed repairs		(728,054)
Ceded land payment		(33,331)
Principal paid on general obligation bonds		(14,317)
Interest paid on general obligation bonds		(312)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		(840,732)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer out to general fund		(499,258)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES		(499,258)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(65,008)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR		2,174,152
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$	2,109,144

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND
STATEMENT OF CASH FLOWS (Continued)
YEAR ENDED JUNE 30, 2013

RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Loss from operations	$ (324,543)
Adjustments to reconcile loss from operations to net cash provided by operating activities:	
Depreciation	1,430,251
(Increase) decrease in assets:	
Accounts receivable	(23,421)
Inventories	(45)
Increase (decrease) in liabilities:	
Accounts payable	(18,887)
Accrued wages payable	(2,892)
Accrued vacation payable	(48,552)
Net OPEB obligation	225,153
	1,561,607
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,237,064

See accompanying notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The State Parking Revolving Fund (the "Fund") was established by an appropriation of $50,000 from the State's General Fund pursuant to Act 161, Session Laws of Hawaii 1963 (Section 107-11 of the Hawaii Revised Statutes). The Fund is responsible for the assessment and collection of reasonable parking fees, installation of parking meters, and the restriction and control of parking on all State lands within the State Comptroller's jurisdiction. All fees, charges and other revenue collected are deposited into this Fund. The funds are to be expended, as necessary, to defray the cost of paving parking areas as well as the purchase and installation of parking meters on State lands within the State Comptroller's jurisdiction.

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for State and Local Governments through its pronouncements (Statements and Interpretations). Governments are required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established by GAAP and used by the Fund are discussed below.

Basis of Accounting - The Fund is an enterprise fund (proprietary fund type) as defined by the Governmental Accounting Standards Board (GASB), which uses the flow of economic resources measurement focus and accrual basis of accounting, as generally applied to commercial enterprises. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Reporting Entity - The financial statements reflect only the Fund's financial activities. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State of Hawaii (State) annually, which include the Fund's financial activities.

Net Position - Net position is reported into two categories: investment in capital assets, net of related debt and unrestricted.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

Special Assessments - HRS Section 36-27 requires that the Fund be assessed its pro rata share of central service expenses of government in relation to other special funds based on a percentage of the Fund's receipts. HRS Section 36-30 requires that the Fund be assessed its pro rata share of administrative expenses incurred by the Department of Accounting and General Services (DAGS), based on the ratio of the general administrative service expenses to DAGS' net departmental expenses. There was no HRS Section 36-27 or Section 36-30 assessment in 2013.

Risk Management - The Fund is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. As part of the State Department of Accounting and General Services, the Fund is insured under the State of Hawaii (the State) as follows: The State generally retains the first $1 million per occurrence of property losses, the first $4 million with respect to general liability claims, and the first $500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is $225 million, except for flood and earthquake, which individually is $225 million aggregate loss, and terrorism, which is $50 million per occurrence. The annual aggregate for general liability losses is $15 million per occurrence and for crime losses, the limit per occurrence is $10 million with no aggregate limit. The State also has an insurance policy to cover medical malpractice risk in the amount of $35 million per occurrence and $39 million in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, nonincremental estimates (based on projections of historical developments) of claims incurred but not reported, and nonincremental estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The State believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed, and as settlements are made and reserves adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimated.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transfers - Transfers between funds occur when a fund receiving revenues transfers resources to a fund where the resources are to be expended or when nonrecurring or nonroutine transfers of equity between funds occur. For the fiscal year ended June 30, 2013, the Fund transferred to the General Fund, $499,258.

Compensated Absences - It is the Fund's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred. A liability for these amounts is reported only if they have matured, for example, as a result of employee resignations and retirements.

Deferred Compensation Plan - The Fund offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all Fund employees, permits employees to defer a portion of their compensation until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The Fund has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the Fund's deferred compensation plan are not reported in the accompanying basic financial statements.

Cash and Cash Equivalents - Cash and cash equivalents include all cash, repurchase agreements, and U.S. government securities with original maturities of three months or less, and all time certificates of deposit. For purposes of the statement of cash flows, the Fund has defined cash equivalents to be all highly liquid investments with a maturity of three months or less when purchased.

Investments - Investments in U.S. government securities and time certificates of deposit are carried at fair value based on quoted market prices. Investments in repurchase agreements are carried at cost. Investments in student loan auction rate securities are reported at fair value, which is generally calculated using the present value of projected cash flows methodology.

Inventories - Inventories, principally supplies, are stated at the lower of cost or market with cost being determined by the first-in, first-out method (FIFO).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets - Capital assets of the Fund include parking structures and improvements, and equipment, furniture and fixtures with estimated useful lives greater than one year and acquisition costs greater than the following amounts:

Structures and improvements	$100,000
Equipment, furniture and fixtures	5,000

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair market value at the date of donation. Transfers are recorded at cost, net of the depreciation which would have been charged had the asset been directly acquired by the Fund. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts, and any resulting gain or loss is recognized in the statement of revenues, expenses and changes in net position.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	Useful Lives
Structures and improvements	15 - 30 years
Equipment, furniture and fixtures	5 - 12 years

Traffic Fines - Traffic fines are reported as revenue when received.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The Director of Finance is responsible for the safekeeping of all monies deposited into the State Treasury. The Director of Finance pools and invests any monies of the State, which in the Director of Finance's judgment, are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the Fund based on its equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, auction rate securities, and repurchase

2. CASH AND INVESTMENTS (CONTINUED)

agreements with federally insured financial institutions. Pooled cash balances invested included auction rate securities. In 2013, the Fund's allocated share of investment gains on pooled auction rate securities were $14,734.

3. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 10,271,053	$ -	$ -	$ 10,271,053
Construction in progress	615,053	794,171	-	1,409,224
Total capital assets not being depreciated	10,886,106	794,171	-	11,680,277
Capital assets being depreciated:				
Structures and improvements	60,250,817	-	-	60,250,817
Equipment, furniture & fixtures	136,765	64,719	22,286	179,198
Total capital assets being depreciated	60,387,582	64,719	22,286	60,430,015
Total capital assets	71,273,688	858,890	22,286	72,110,292
Less accumulated depreciation for:				
Structures and improvements	(51,520,457)	(1,423,780)	-	(52,944,237)
Equipment, furniture & fixtures	(136,765)	(6,472)	(22,286)	(120,951)
Total accumulated depreciation	(51,657,222)	(1,430,252)	(22,286)	(53,065,188)
Total capital assets, net of depreciation	$ 19,616,466	$ (571,362)	$ -	$ 19,045,104

4. CEDED LAND REVENUES

In 1898, the former Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States reconveyed title to those lands (collectively, the "Ceded Lands") back to the State, and the Ceded Lands are to be held as a public land trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. In 1978, the State Constitution was amended expressly to provide that the Ceded Lands were to be held as a public trust for native Hawaiians and the general public, and to establish OHA to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands to better the conditions of native Hawaiians.

In 1979, the Legislature adopted HRS Chapter 10 ("Chapter 10"), which, as amended in 1980, specified, among other things, that OHA expend 20% of all funds derived by the State from the Ceded Lands for the betterment of native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987) ("Yamasaki"), the Hawaii Supreme Court concluded that Chapter 10 was insufficiently clear regarding the amount of moneys OHA was entitled to receive from the public trust lands.

In 1990, in response to *Yamasaki*, the Legislature adopted Act 304, SLH 1990, which (i) defined "public land trust" and "revenue," (ii) reiterated that 20% of the now defined "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (iii) established a process for OHA and the Director of Finance to jointly determine the amount of monies which the State would pay OHA to retroactively settle all of OHA's claims for the period from June 16, 1980 through June 30, 1991. Since fiscal year 1992 and until the first quarter of fiscal year 2002, the State, through its departments and agencies, paid 20% of "revenues" to OHA on a quarterly basis.

In 1993, the State Legislature enacted Act 35, SLH 1993, appropriating $136.5 million to pay the amount determined to be OHA's claims, with interest, for the period from June 16, 1980 through June 30, 1991.

On January 14, 1994, OHA and its Board of Trustees (the "Plaintiffs") filed suit against the State (*OHA, et al. v. State of Hawaii, et al.*, Civil No. 94-0205-01(1st Cir.) ("OHA I")), claiming that the amount paid to OHA was inadequate and that the State had failed to properly account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs sought an accounting of all proceeds and income, funds and

4. CEDED LAND REVENUES (Continued)

revenue derived from the public land trust since 1978, and restitution for damages amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to OHA's complaint, the State denied the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

The Plaintiffs, thereafter, filed four motions for partial summary judgment as to the State's liability to pay OHA 20% of monies it receives from (i) the Department of Transportation Airports Division's in-bound duty-free airport concession (including receipts from the concessionaire's off-airport sales operations); (ii) the State-owned and operated Hilo Hospital; (iii) the State's public rental housing projects and affordable housing developments, and (iv) interest income, including investment earnings (collectively, the "Sources"). In response, the State filed a motion to dismiss on the basis of sovereign immunity and opposed Plaintiffs' four motions on the merits and raised several affirmative defenses.

On October 24, 1996, the Circuit Court filed an order denying the State's motion to dismiss and rejecting its affirmative defenses. Also on October 24, 1996, the Circuit Court filed an order granting the Plaintiffs' four motions for partial summary judgment with respect to the State's liability to pay OHA 20% of the monies it receives from each of the Sources, and deferred establishing amounts owed from those Sources for further proceedings or trial. The State's motion for leave to file an interlocutory appeal from both the order denying its motion to dismiss and the order granting the Plaintiffs' four partial summary judgments was granted, and all proceedings in the suit were stayed pending the Hawaii Supreme Court's disposition of the State's appeal.

On September 12, 2001, the Hawaii Supreme Court concluded *OHA I* by holding in *OHA v. State of Hawaii*, 96 Haw. 388 (2001) that Act 304 was effectively repealed by its own terms, and that there was no judicially manageable standard i.e. legal standard, by which to determine whether OHA was entitled to the revenues it sought from the Sources because the repeal of Act 304 revived the law which the Court in *Yamasaki* had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the Ceded Lands. The Supreme Court dismissed OHA I for lack of justifiability, that is, that the case was not appropriate for review by the Court, noting that it was up to the Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the Ceded Lands under the State Constitution. Immediately thereafter, agencies ceased paying OHA any receipts from the Ceded Lands.

4. CEDED LAND REVENUES (Continued)

The Legislature took no action during the 2002, 2003, and 2004 legislative sessions to establish a new mechanism for establishing how much OHA was entitled to receive from the Ceded Lands. On January 10, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring 20% of receipts from leases, licenses, and permits indisputably paid for the use of improved or unimproved parcels of Ceded Lands to OHA, if federal or state law did not preclude all or any portion of the receipt from being used to better the conditions of native Hawaiians and the transfer of all or any portion of the receipt to OHA would not cause the agency to renege on a preexisting pledge, rate covenant, or other preexisting obligation to holders of revenue bonds or other indebtedness of the State or the agency. In Act 34, SLH 2003, the Legislature appropriated monies from the various funds into which Ceded Lands receipts had been deposited after the decision in *OHA I* was issued and agencies ceased making payments to OHA, and directed the agencies to pay them to OHA.

OHA continues to pursue claims for a portion of the revenues from the Sources and other Ceded Lands that it made in *OHA I*. On July 21, 2003, OHA filed a new lawsuit, *OHA, et al. v. State of Hawaii, et al.,* Civil No. 03-1-1505-07 ("*OHA II").* In September 1996, the Office of the Inspector General of the U.S. Department of Transportation ("DOT") issued a report (the "IG Report") concluding that payments to OHA between 1992 to 1995 of $28.2 million by the Hawaii Department of Transportation was a "diversion of airport revenues in violation of applicable federal law as OHA provided no airport services in return. The Attorney General of Hawaii disagreed with the IG Report's conclusion, stating in November 1996 that the payments to OHA were an operating cost of the Airports and not a diversion of airport revenues. In May 1997, the Acting Administrator of the FAA concurred in writing (the "FAA Memorandum") with the IG Report and opposed the Hawaii Attorney General's position. In support of its appeal of the Circuit Court's *OHA I* decision to the Hawaii Supreme Court, but differing with the original position of the Attorney General, the State noted in its May 1997 amended opening brief that "unless the federal government's position set forth in the IG Report changes, Act 304 prohibits the State from paying OHA airport-related revenues." In its June 1997 reply brief, the State stated that the "DOT Inspector General's determination shows that the federal government is on its way to finding such payments illegal and requiring the State to reimburse past payments of airport-related revenues to OHA." In November 1997, the Department of Transportation and Related Agencies Appropriation Act, 1998, PL 105-66, 1997 HR 2169 ("DOT Appropriation Act") was enacted into federal law. Section 340 of the DOT Appropriation Act (Section 340) essentially provides that in exchange for there being no further payments of airport revenues for claims related to Ceded Lands, any such payments received prior to May 1, 1996 need not be repaid. The Hawaii Attorney General submitted enactment of Section 340 to the Hawaii

4. CEDED LAND REVENUES (Continued)

Supreme Court in December 1997, "for the Court's use" in conjunction with the *OHA I* appeal, whereupon the Court requested the parties to submit supplemental briefs to address whether Section 340 affected the Court's interpretation of Act 304. The State, in its March 1998 supplemental brief, stated, inter alia, that paying OHA a pro rata share of airport moneys violated federal law, and that there was no live, ripe controversy regarding those payments because the DOT Appropriation Act relieved the State and OHA of any obligation to return improper past payments.

Despite the adverse *OHA I* decision, the Plaintiffs in *OHA II* sued the State for alleged breaches of fiduciary duties as purported trustee of the Ceded Lands public trust, alleged violations of Act 304, Chapter 10, and Article XII, Sections 4, 5, and 6 of the Hawaii Constitution, violations of the Contract Clause of the U.S. Constitution, and misrepresentation and non-disclosure, by the following alleged acts (but not limited to these acts): (1) failing to oppose positions set forth in the FAA Memorandum; (2) resolving its dispute with the FAA by obtaining a forgiveness of the prior $28.2 million payments in exchange for a promise not to make future airport revenue payments to OHA and not to appeal the positions set forth in the FAA Memorandum; (3) breaching the trust duty of impartiality by not opposing the positions set forth in the FAA Memorandum in order to use them as a sword in *OHA I*; (4) failing to timely advise OHA that the State was not going to continue to oppose the positions set forth in the FAA Memorandum or IG Report, and that it was planning to settle with the federal government, in order to provide OHA with a fair opportunity to take measures to step into the State's position to oppose the FAA; and (5) failing to obtain instructions from the Court on how to proceed given the State's conflict between defending the State against OHA in *OHA I*, and having a duty to oppose the positions set forth in the FAA Memorandum.

OHA further alleges that these alleged "breaches, errors, and omissions" were substantial factors that resulted in the passing of Section 340 and the issuance of the Hawaii Supreme Court's opinion in *OHA I*. Plaintiffs claim that, accordingly, the State is liable to OHA for damages including, but not limited to: (1) the damages alleged by OHA in *OHA I*, and (2) amounts payable under Act 304 that have not been paid, including but not limited to, airport landing fees. Plaintiffs also sought declaratory and injunctive relief ordering the State to reinstate Act 304, pay airport-related revenues to OHA from sources other than airport revenues (and enjoining the State and its agents, employees, and officials from opposing any of the above), and sought appointment of an independent trustee to replace the State as trustee of the native Hawaiian public trust with respect to matters relating to reinstatement of Act 304 and the payment of airport-related revenues to OHA from the sources other than airport revenues. On December 26, 2003, the court granted the State's motion to dismiss OHA's complaint in *OHA II*. The court

4. CEDED LAND REVENUES (Continued)

entered a final judgment on May 19, 2004, encompassing the order dismissing the complaint and several procedural orders. On June 8, 2004, OHA filed a notice of appeal from the portions of the May 19, 2004 judgment dismissing its complaint in *OHA II*, denying leave to amend the complaint and denying a request for bifurcation of OHA's claims for liability and damages. The Hawaii Supreme Court affirmed the circuit court's order dismissing OHA's complaint in a decision issued September 9, 2005; granted OHA's motion for reconsideration in an order filed on December 23, 2005; and affirmed the circuit court's final judgment again in an opinion entered on April 28, 2006.

On January 17, 2008, OHA and the Governor signed a settlement agreement to finally and completely resolve and settle any and all claims and disputes relating to OHA's portion of income and proceeds from the lands of the Ceded Lands public trust under article XII, sections 4 and 6 of the Hawaii Constitution between November 7, 1978 and July 1, 2008, and to fix prospectively, the minimum amount of income and proceeds from the lands of the Ceded Lands public trust, OHA is to receive per fiscal year, under those same provisions of the Hawaii Constitution, at $15.1 million. The settlement was contingent on passage of a bill prepared jointly by OHA and the Attorney General without material changes, or, if the bill was changed, with the written approval of OHA and the Governor. The Legislature did not pass two bills for such purpose during its 2008 regular session, and directed instead that OHA and the Attorney General resume negotiations on the payment to be made by the State to resolve the dispute with OHA concerning the sum OHA should have received from November 7, 1978 to June 30, 2008, pursuant to article XII, sections 4 and 6 of the Hawaii Constitution.

On June 2, 2010, OHA filed a petition for writ of mandamus in the Hawaii Supreme Court which asked the court to compel the members of the Twenty-Sixth Legislature (which convened in January 2011) to enact legislation to pay OHA what OHA believes represents unpaid portions of the income and proceeds derived from the ceded lands between 1978 or 1980 through 2008, i.e., approximated at $200,000,000. The court entered an order denying the petition on August 18, 2010. It was reported on November 17, 2011, that the State had reached an agreement in principle, subject to approval of the Legislature, to resolve the amount the State owes OHA through 2012 by providing OHA approximately 25 acres of land worth an estimated $200,000,000. No prediction can be made as to whether an agreement will be finalized and, if so, what form it may take.

On April 11, 2012, the Governor signed Act 15, SLH 2012 ("Act 15"), into law. Act 15 conveys title to nine parcels, valued at approximately $200,000,000 to OHA, as of July 1, 2012. Act 15 also satisfies, resolves, discharges, releases, waives, extinguishes, prohibits, and bars, finally and

4. CEDED LAND REVENUES (Continued)

completely, any and all claims, disputes, controversies, rights, actions, and causes of action, OHA (or other parties claiming through OHA) has asserted or could have asserted to the income and proceeds from the Ceded Lands. Act 15 also withdrew any waiver or sovereign immunity the State may have previously have made with respect to OHA's portion of receipts from Ceded Lands, and affirms that the State does not waive its sovereign immunity to permit a claim or suit to be brought to invalidate the act's operative provision.

Until the Legislature alters the amount or establishes a different means of implementing Article XII, Sections 4 and 6 of the Hawaii Constitution, Act 178 serves as the means for satisfying the State's obligation to provide OHA with a portion of the income and proceeds from the Ceded Lands, for native Hawaiians.

In November 1994, OHA and four individuals also filed complaints for declaratory and injunctive relief on November 4, 1994, and November 9, 1994 (*OHA v. Housing Finance and Development Corporation, et al.*, Civil No. 94-4207-11 (1st Cir.)) to enjoin the State from alienating any Ceded Lands and extinguishing any rights native Hawaiians may have in Ceded Lands that may be alienated. Alternatively, OHA sought a declaration that the amounts paid to OHA by the Housing Finance and Development Corporation (the "HFDC", since succeeded by the HHFDC, as described below) and the State for Ceded Lands that the HFDC planned to use to develop and sell housing units pursuant to Act 318, SLH of 1992, were insufficient. Act 318 established a separate process for valuing the Ceded Lands the HFDC used for its two housing developments at Kealakehe and Lahaina, and quantifying the amounts of income and proceeds from the Ceded Lands that the HFDC and State were required to pay to OHA for conveying and using the parcels for the Corporation's two projects.

In December 2002, following a trial on the issues, the trial court confirmed the State's authority to sell Ceded Lands, denied the declaratory ruling that the sale of Ceded Lands did not directly or indirectly release or limit Hawaiians' claim to those lands which the plaintiffs requested, and ordered that judgment be entered in the State's and the HFDC's favor as to Counts I, II, and III of the Amended Complaint. The plaintiffs moved for and were granted leave to file immediate appeals from the court's rulings to the Hawaii Supreme Court.

On January 31, 2008 the Hawaii Supreme Court issued an opinion vacating the circuit court's judgment in favor of the State and HFDC, and "remanded the case to the circuit court with instructions to issue an order granting the plaintiffs' request for an injunction against the defendants from selling or otherwise transferring to third parties (1) the parcel of ceded land on Maui and (2) any ceded lands from the public lands trust until the claims of the native Hawaiians

4. CEDED LAND REVENUES (Continued)

to the ceded lands have been resolved." In accordance with the instructions of the Hawaii Supreme Court, the circuit court issued its order on June 4, 2008 granting plaintiff's request for such injunction. Seeking a reversal of the January 31, 2008 decision of the Hawaii Supreme Court, the State filed a Petition for Writ of Certiorari on April 29, 2008 with the United States Supreme Court. The United States Supreme Court granted the petition for certiorari, and on March 31, 2009, unanimously reversed the Hawaii Supreme Court's decision, and remanded the case to the Hawaii Supreme Court for further proceedings not inconsistent with its opinion. The United States Supreme Court concluded that the State holds "absolute fee" title to the lands conveyed to it by the United States at statehood; that federal law did not prevent the Legislature from deciding, as it had, to sell a portion of the Ceded Lands for the HFDC's two housing developments; and that the Supreme Court of Hawaii erred in reading the federal Apology Resolution "as recognizing claims inconsistent with the title held in 'absolute fee' by the United States and conveyed to the State of Hawaii at statehood." By orders filed on May 15, 2009, the Hawaii Supreme Court re-opened the appeal in that court "for further consideration in light of the United States Supreme Court's mandate."

On July 15, 2009 all but one of the plaintiffs filed a motion to dismiss their appeal, and all of their claims without prejudice, and the Attorney General filed a motion to dismiss all remaining claims, namely the claims of the plaintiff who did not join the rest of the plaintiffs' motion to dismiss.

By a judgment on appeal filed on December 14, 2009 that referred to an opinion filed on October 27, 2009, the Hawaii Supreme Court vacated the January 31, 2003 judgment, and remanded the case to the Circuit Court for entry of a judgment dismissing plaintiff Osorio's claims against the State without prejudice. In the Circuit Court, the Attorney General filed a motion to dismiss plaintiff Osorio's claims without prejudice, and a motion to dissolve the injunction entered on June 4, 2008. Two orders were filed in the Circuit Court on March 9, 2010, one dismissing plaintiff Osorio's claims without prejudice, and the other dissolving the June 4, 2008 injunction.

OHA also filed suit against the Hawaii Housing Authority (the "HHA", since succeeded by the HPHA, as described below), the executive director of the HHA, the board members of the HHA and the Director of Finance on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (1st Cir.)) to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of Ceded Lands which were transferred to the HHA for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in *OHA I*. OHA disagrees

4. CEDED LAND REVENUES (Continued)

that the repeal and revival of the pre-*Yamasaki* law by the Hawaii Supreme Court's September 12, 2001 decision in *OHA I* should also require dismissal of the claims OHA makes in *OHA v. HHA* and the case remains pending.

The HFDC and HHA were merged into the HCDCH after the suits against them described above were filed. HCDCH was subsequently bifurcated into the HHFDC and the HPHA.

The State intends to defend vigorously against all of OHA's claims. It is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of all of OHA's claims in OHA's favor could have a material adverse effect on the State's financial condition.

The Fund has recorded ceded land payments of $33,331 for 2013, to OHA representing OHA's entitlement to revenues derived from the Fund's use of Ceded Lands. All monies due prior to October 1, 2002, were transferred to a trust fund pending resolution of OHA's claim against the State. Included in accounts payable is $5,172 for ceded land payments due as of June 30, 2013.

5. ACCRUED LIABILITES

Accrued liabilities consist of the following:

Accrued vacation payable	$ 154,127
Accrued wages payable	46,844
Accrued workers' compensation	13,100
	214,071
Less current portion	(73,267)
Total accrued liabilities, net of current portion	$ 140,804

6. WORKERS' COMPENSATION RESERVE

The Fund is fully self-insured for workers' compensation and disability claims which are expensed when incurred. The Fund pays a portion of wages, medical bills, and judgments as stipulated by the Department of Labor and Industrial Relations, and other costs for injured workers. During the year ended June 30, 2013, there were no payments for workers' compensation claims and disability expenses. The Fund has recorded a reserve of $13,100 for the expected cost of open reported claims based on historical cost information for closed and open claims as of June 30, 2013.

7. GENERAL OBLIGATION BONDS PAYABLE

The following are general obligation refunding bonds allocated to the Fund under acts of various Session Laws of Hawaii. Repayments of allocated bonds are made to the State's General Fund. Details of the allocated bonds payable at June 30, 2013 are as follows:

3.40% - 5.50% General obligation refunding bonds, Series CW, of $1,254 issued in August 2001 under Act 3, Session Laws of Hawaii 2001; annual principal payments of $89 beginning August 1, 2005 and increasing incrementally to $146 through August 1, 2015; semi-annual interest payments due February 1 and August 1; maturing on August 15, 2015.	$ 375
3.60% - 5.25% General obligation refunding bonds, Series CY, of $2,394 issued in February 2002 under Act 3, Session Laws of Hawaii 2002; annual principal payments of $216 beginning February 1, 2007 and increasing incrementally to $326 through February 1, 2015; semi-annual interest payments due February 1, and August 1; maturing on August 15, 2015.	635

7. GENERAL OBLIGATION BONDS PAYABLE (Continued)

2.80% - 5.00% General obligation refunding bonds, Series DB, of $124,267 issued in September 2003 under Act 116, Session Laws of Hawaii 2003; annual principal payments of $11,307 beginning September 1, 2008 and increasing incrementally to $16,764 through September 1, 2016; semi-annual interest payments due March 1 and September 1; maturing on September 1, 2016.	$ 62,156
5.00% General obligation refunding bonds, Series DG, of $2,283 issued in June 2005 under Act 42, Session Laws of Hawaii 2004; annual principal payments of $206 beginning July 1, 2009 and increasing incrementally to $307 through July 1, 2017; semi-annual interest payments due January 1 and July 1; maturing on July 1 2017.	1,394
Total bonds payable	64,560
Less current installments	(15,061)
Bonds payable, net of current installments	$ 49,499

Debt service requirements to maturity on general obligation bonds payable are as follows:

Years ending June 30:	Principal	Interest	Total
2014	$ 15,061	$ 249	$ 15,310
2015	15,843	183	16,026
2016	16,292	112	16,404
2017	17,057	44	17,101
2018	307	5	312
	$ 64,560	$ 593	$ 65,153

8. CHANGES IN NON-CURRENT LIABILITIES

Changes in non-current liabilities were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due within one year
Security card deposits	$ 27,590	$ -	$ -	$ 27,590	$ -
Accrued liabilities	265,515	46,843	98,287	214,071	73,267
Net OPEB obligation	702,937	309,871	84,718	928,090	-
General obligation bonds payable	78,877	-	14,317	64,560	15,061
Total non-current liabilities	$1,074,919	$ 356,714	$ 197,322	$1,234,311	$ 88,328

9. RETIREMENT BENEFITS

Employees' Retirement System

All eligible employees of the Fund are required by HRS Chapter 88 to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer defined benefit public employee retirement plan. The ERS provides retirement benefits, as well as death and disability benefits and is governed by a Board of Trustees. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. The report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new non-contributory plan for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are precluded from the non-contributory plan. The non-contributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new non-contributory plan and receive a refund of employee contributions. On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Qualified employees in the contributory and non-contributory plan were given the option of joining the hybrid plan or remaining in their existing plan. Starting July 1, 2006, all new employees covered by Social Security are required to join the hybrid plan.

9. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

The three plans provide a monthly retirement allowance equal to the benefit multiplier percentage (1.25% or 2.00%) multiplied by the average final compensation (AFC) multiplied by years of credited service. The benefit multiplier decreased by 0.25% for the new hybrid and contributory plan members hired after June 30, 2012. The AFC is the average salary earned during the five highest paid years of service, including the payment of salary in lieu of vacation, or three highest paid years of service, excluding the payment of salary in lieu of vacation, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the payment of salary in lieu of vacation. For new members hired after June 30, 2012, the AFC is based on the five highest paid years of service, excluding the payment of salary in lieu of vacation.

For postretirement increases, every retiree's original retirement allowance is increased by 2.5% on each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5.0% the second year, 7.5% the third year, etc.) For new members hired after June 30, 2012, the postretirement annuity increase was decreased to 1.5% per year.

Employees of the contributory plan are required to contribute 7.8% of their salary and are fully vested for benefits upon receiving 5 years of credited service. The Fund may also make contributions for these members. Under the contributory plan, employees may retire with full benefits at age 55 and 5 years of credited service, or may retire early at any age with at least 25 years of credited service and reduced benefits. The benefit multiplier is 2.0% for employees covered by Social Security.

New employees in the contributory plan hired after June 30, 2012 are required to contribute 9.8% of their salary and are fully vested for benefits upon receiving 10 years of credited service. These members may retire with full benefits at age 60 and 10 years of credited service, or may retire at age 55 with 25 years of credited service with reduced benefits. The benefit multiplier is 1.75% for employees covered by Social Security.

Employees in the hybrid plan are required to contribute 6.0% of their salary and are fully vested for benefits upon receiving 5 years of credited service. The Fund may also make contributions for these members. Employees may retire with full benefits at age 62 and 5 years of credited service or at age 55 and 30 years of credited service, or may retire at age 55 and 20 years of

9. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 2.0%.

New employees in the hybrid plan hired after June 30, 2012 are required to contribute 8% of their salary and are fully vested for benefits upon receiving 10 years of credited service. Employees may retire with full benefits at age 65 and 10 years of credited service, or at age 60 with 30 years of credited service, or may retire at age 55 with 20 years of credited service with reduced benefits. The benefit multiplier is 1.75% for employees covered by Social Security.

Employees in the non-contributory plan are fully vested upon receiving 10 years of credited service. The Fund is required to make all contributions for these members. Employees may retire with full benefits at age 62 and 10 years of credited service, or age 55 and 30 years of credited service, or age 55 and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 1.25%.

The ERS funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. The funding method used to calculate the total employer contribution required is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability. The employer contribution rate at that time was 13.75%. As of July 1, 2008, the rate increased to 15.00%. As of July 1, 2012, the rate further increased to 15.50%. Each year thereafter the rate will gradually increase to 17.00%. Employer rates are set by statute based on the recommendation of the ERS actuary resulting from an experience study conducted every five years.

The State's contribution requirement as of June 30, 2012, 2011 and 2010, based on the most recent information available, was approximately $396,380,000, $388,242,000, and $398,724,000 respectively. The State contributed 108.6%, 105.3%, and 99.6% of its required contributions for those years, respectively. The Fund's covered payroll was approximately $874,169 in 2013. The retirement plan contributions charged to the Fund's operation was $129,082 in 2013.

9. RETIREMENT BENEFITS (Continued)

Post-Retirement Health Care and Life Insurance Benefits

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH of 2001, the State contributes to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF currently provides medical, prescription drug, dental, vision, chiropractic, and group life insurance benefits. The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813.

For employees hired before July 1, 1996, the State pays the entire monthly contribution for employees retiring with 10 years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

Effective July 1, 2006, the EUTF implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* (GASB 43). GASB 43 establishes accounting and financial reporting standards for plans that provide other postemployment benefits (OPEB) other than pensions. GASB 43 requires defined benefit OPEB plans that are

9. RETIREMENT BENEFITS (Continued)

Post-Retirement Health Care and Life Insurance Benefits (Continued)

administered as a trust or equivalent arrangements to prepare a statement of plan assets and a statement of changes in plan assets.

The reporting of active and retiree (including their respective beneficiaries) healthcare benefits provided through the same plan should separate those benefits for accounting purposes between active and retiree healthcare benefits. Accordingly, the EUTF reports the retiree healthcare benefits as OPEB in conformity with GASB 43 and the active employee healthcare benefits as risk financing in conformity with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* (GASB 10), as amended.

Effective July 1, 2007, the State of Hawaii adopted GASB Statement 45, *Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions* (GASB 45), which requires reporting the OPEB liability on an accrual basis. Because the Statement was implemented on a prospective basis, the OPEB liability at transition was zero.

The State is required by GASB 45 to obtain an actuarial valuation every other year, therefore, an actuarial valuation was performed for July 1, 2011.

The State's base contribution levels to EUTF are established by statutes. The retiree is responsible to pay the difference if the base contribution is less than the cost of the monthly premium.

The State's base contribution levels are currently tied to the pay-as-you-go amount necessary to provide current benefits to retirees. The State's annual OPEB cost for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters in GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The actuarial methods and assumptions used to compute the ARC is disclosed in the notes to the financial statements of the State of Hawaii's comprehensive annual financial report. The Fund's contribution for the years ended June 30, 2013, 2012, and 2011 were $84,719, $66,234, and $52,760, respectively.

For the year ended June 30, 2013, total annual required contribution of $1,010,168,574 was recognized for post-retirement health care and life insurance benefits by the State of which

9. RETIREMENT BENEFITS (Continued)

Post-Retirement Health Care and Life Insurance Benefits (Continued)

$277,900,000 was paid in 2013 and a net OPEB obligation of $732,268,574 remained as of June 30, 2013. The Fund's share of the total annual required contribution was $309,871, of which $84,719 was paid in 2013. A net OPEB obligation of $928,090 is presented in the statement of net position at June 30, 2013.

10. COMMITMENTS AND CONTINGENCIES

Accumulated Sick Leave Pay

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. As of June 30, 2013, accumulated sick leave was approximately $571,662.

PART IV

INTERNAL CONTROL AND COMPLIANCE SECTION

EGAMI & ICHIKAWA
CERTIFIED PUBLIC ACCOUNTANTS, INC.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Office of the Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State of Hawaii, Department of Accounting and General Services, State Parking Revolving Fund (the "Fund") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Fund's financial statements, and have issued our report thereon dated January 16, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

MICHAEL Y. ICHIKAWA, CPA OWEN M. FUKUMOTO, CPA DANA R. ABE, CPA TAMMIE R. OKAMI, CPA
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We noted certain matters that we have reported to governance of the Fund, in a separate letter dated January 16, 2014.

This report is intended solely for the information and use of the Office of the Auditor, management of the Fund, the Department of Accounting and General Services and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

COPY
Original document signed by
Egami & Ichikawa CPAs, Inc.

Honolulu, Hawaii
January 16, 2014

PART V

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS:

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reportable condition identified that is not considered to be material weakness	None reported
Noncompliance material to financial statements noted?	No

SECTION II - FINANCIAL STATEMENT FINDINGS

Status of Prior Year's Comments

No matters were reported.

Current Year's Comments

No matters were reported.

PART VI

CORRECTIVE ACTION PLAN

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2013

A corrective action plan is not required since there were no audit findings and questioned costs reported for the year ended June 30, 2013.